REVIEW OF SOUTHEAST ASIAN ECONOMIC DEVELOPMENTS

Manu Bhaskaran

Introduction and Summary

Southeast Asian economies are integrated into the world economy through multiple channels and remain sufficiently exposed to the G-3 (European Union, Japan, United States) economies that they could not escape a substantial hit from the global financial crisis. Our views can be summarized as follows:

- What is striking about the regional economies then was their surprising resilience — GDP growth is on track for a robust rebound, reversing the global impact fairly quickly. We believe that this improved resilience springs from important structural changes in the region since the Asian financial crisis of 1997–98. In particular, policy changes have strengthened macroeconomic frameworks and banking sectors while also allowing some degree of diversification of the economic base.
- The regional economies are thus poised for a strong rebound, even with a global environment that is likely to remain troubled and occasionally subject to financial stresses. However, these global level risks are not likely to result in a double-dip slowdown in Southeast Asia — external demand is recovering and the lagged effects of monetary and fiscal easing will support growth.
- The real challenge in Southeast Asia is to build economic resilience and prepare for a global economy that will be substantially different from the pre-crisis era.

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Impact of the Global Crisis

(a) Global Crisis Hurt but Region Displayed More Resilience Than Expected

Two features of the performance of Southeast Asian economies in 2009 stand out: First, the crisis showed how intricately integrated the region is with the global economy and, in particular, with the United States, European Union, and Japan. Second, despite this, their economies have developed greater resilience to external shocks as seen in the speed with which their economies have rebounded.

As Table 1 shows, most Southeast Asian economies suffered a sharp deceleration in economic growth as the global crisis spread. However, the recovery came fairly quickly, meaning that the recessionary impact of the global crisis on Southeast Asia was mostly limited in duration.

This initially severe impact of the crisis suggests little evidence for the decoupling that many had hoped for. This is seen in the multiple transmission mechanisms through which the global crisis hurt Southeast Asia:

- The first and immediate impact was felt through the financial channel. As the enormity of the financial crisis in the United States and European Union became evident, there was a sharp fall in risk appetites among global investors which precipitated a withdrawal of funds deployed to bonds and equities in "riskier" emerging markets. This in turn led to sharp falls in asset prices (Figures 1 and 2 for example) as well as a liquidity crunch in several economies as capital flowed out. Exchange rates came under pressure as well. Trade financing weakened sharply as well; much of the trade finance in the region was provided by European banks which had been hurt by the

TABLE 1
Economic Growth during the Global Financial Crisis

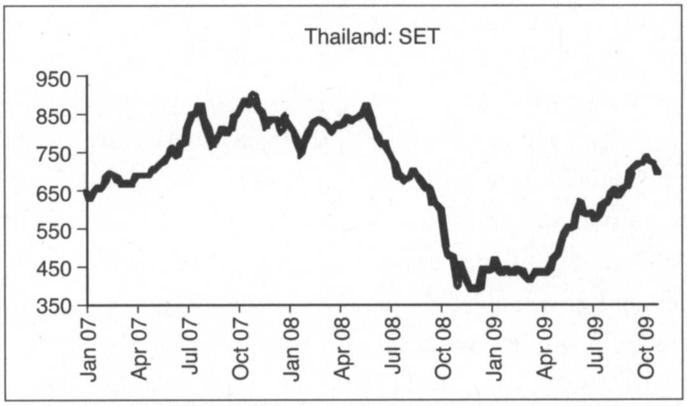
GDP growth y/y %	*2008*	*4Q08*	*1Q09*	*2Q09*	*3Q09*
Indonesia	6.3	5.1	4.5	4.0	4.2
Malaysia	6.3	0.1	–6.3	–3.9	–1.2
Philippines	3.9	2.8	0.6	1.5	0.8
Singapore	1.2	–4.2	–9.5	–3.5	0.6
Thailand	2.5	–4.2	–7.1	–4.9	–2.8
Vietnam	6.2	5.5	3.1	4.4	5.8

Source: Collated by Centennial Group using CEIC Database and official sources.

FIGURE 1
Sharp Falls in Assets Markets ...

Source: Collated by Centennial Group using CEIC database.

FIGURE 2
... Reflected Immediate Financial Impact of Crisis

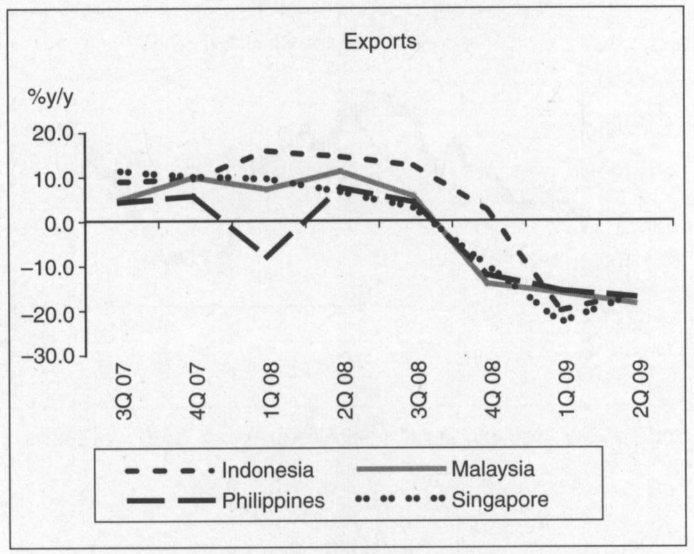


Source: Collated by Centennial Group using CEIC database.

crisis. Risk-averse banks became wary of engaging even in the relatively less risky funding of export and import transactions.

- Second, as businesses in developed economies became alarmed at the credit crunch in their economies, they did everything they could to conserve cash, including retrenching workers, liquidating inventories, and slashing orders for imported goods from developing economies. Not surprisingly, Southeast Asian exporting nations saw a precipitous fall in export orders from late

FIGURE 3
Exports Plunged ...

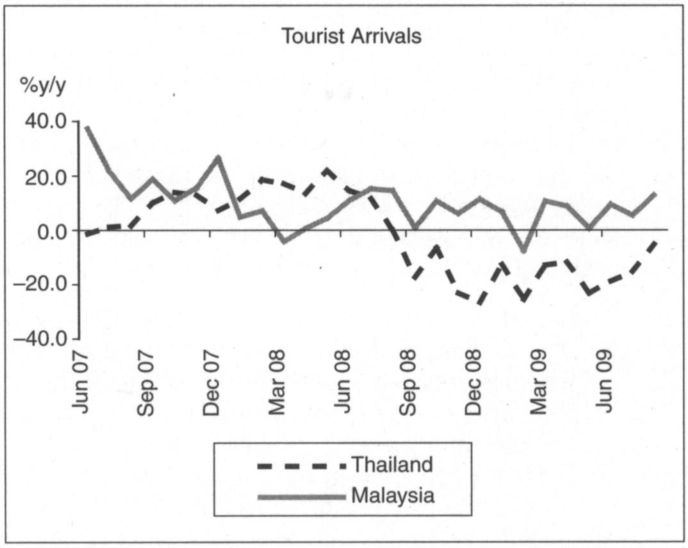


Source: Collated by Centennial Group using CEIC database.

2008 onwards, causing exports to fall sharply (Figure 3). Intra-Asian trade also fell sharply, bringing out clearly that a large proportion of intra-Asian trade was really trade in components that were eventually assembled in Asia for final consumption in the G-3.

- Third, as global demand fell, other factors affecting household incomes in Southeast Asia also came under pressure. Export-oriented manufacturing companies and companies affected by the financial turmoil, such as banks, reduced payrolls while also cutting back on overtime pay. Commodity prices fell and the growth of remittances also slowed. Local business and consumer confidence took a hit, leading to restrained spending by both businesses and consumers.
- Fourth, tourist arrivals fell as more consumers in the major tourism markets became cautious in their spending habits (Figure 4). Southeast Asia as a major tourist destination suffered as a result.
- Fifth, as the global crisis spread, foreign investment — another key driver of growth in the region — also slowed. Multinational companies in developed economies focused immediately on protecting their short-term profitability and cash reserves while deferring long-term capacity expansion.

FIGURE 4
... and Even Tourist Arrivals Slowed or Fell



Source: Collated by Centennial Group using CEIC database.

In short, there were too many active channels of transmission of a global shock into the domestic economies of Southeast Asia for the region to have decoupled from the developed economies.

(b) What Explains This Resilience?

As discussed above, Southeast Asian economies are mostly highly open economies that are exposed to substantial flows of trade, portfolio capital, direct investment, and tourists as well as sensitive to global factors such as commodity prices and business confidence. Yet, Southeast Asia demonstrated a capacity to absorb shocks better than in previous crises, containing the downside and bouncing back after the initial hit. This economic resilience comprised five sets of factors that are explained in more detail in Table 2.

The final outcome of the resilience analysis is described in Figure 5, which shows that regional economies enjoyed some improvement, albeit small, in their economic resilience during the course of this decade.

Table 3 outlines how our estimate of each country's resilience changed between 2000 and 2008 and what factors accounted for the change.

TABLE 2
What Drives Resilience?

Factor	*Comments*
Political factors	Political weaknesses in the region in the past amplified external shocks: • Intra-elite conflicts, such as in Malaysia in 1997–98. • Substantial uncertainty over the longevity of a key leader, as in Indonesia in 1998. Conversely, a strong government can help to absorb shocks by inspiring confidence and acting decisively.
Financial vulnerabilities	The financial sector is a critical factor in resilience: • A high ratio of financially-mobile capital to foreign exchange reserves reduces resilience; the flight of capital induced by footloose investors can be disruptive for currencies, domestic liquidity, and the external accounts. • Currency and maturity mismatches can compound an external shock; this was a major problem in 1997. • Banking sector balance sheets: strongly capitalised, prudently managed domestic banks will lend resilience. • Corporate sector balance sheets are also important; the stronger these are, the better resilience is.
Diversity of the economic base	A more diverse economic base avoids concentration risks: • Economy's dependence on domestic demand versus external demand. • Economy's dependence on external actors such as investors or providers of funds. • In trade, whether there is disproportionate dependence on particular geographic markets or products.
Flexibility of an economy	Whether an economy has spontaneous domestic adjustment mechanisms/automatic stabilisers that help the economy to respond effectively to a shock. • A large social safety net, including unemployment benefits. • A flexible labour market that, say, adjusts wages down when economic conditions worsen so that unemployment does not rise sharply. • A floating exchange rate usually helps to absorb shocks better.
Capacity of policy to respond effectively	Swift and effective policy actions can help to absorb shocks. • Strength of the monetary anchor in an economy and credibility of the central bank helps to prevent speculative attacks or sudden and disruptive changes in inflationary or exchange rate expectations. • The amount of fiscal space the government has available to use to stimulate the economy.

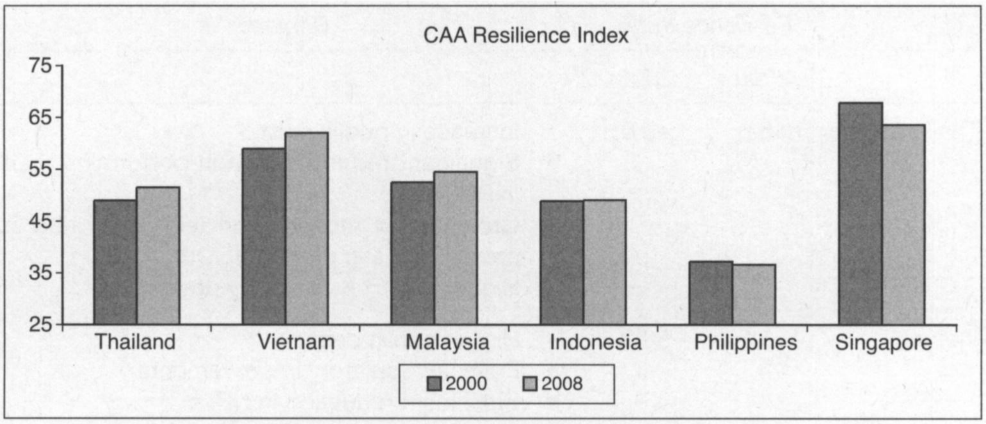
Source: Prepared by Centennial Group.

TABLE 3
Changes in Economic Resilience in Southeast Asia 2000–8

	Resilience Index		*Remarks*
	2000	*2008*	
Thailand	46.6	48.9	• Increase in public debt • Significant reduction in non-performing loan (NPL) ratio • Growing tax mobilization relative to rise in gross domestic product (GDP) • Higher export diversity by destination
Vietnam	55.5	58.3	• Higher public debt • Political/regulatory improvements • Significant reduction in NPLs • Higher domestic demand due to massive increase in gross fixed capital formation (GFCF)
Malaysia	49.8	51.5	• Lower public debt • Political/regulatory improvements • Reduction in NPLs • Higher export diversity by destination
Indonesia	46.6	46.6	• Lower public debt • Lower average inflation • Political/regulatory improvements • Significant reduction in NPLs • Higher dependence on foreign energy • Higher domestic demand due to massive increase in private consumption expenditure (PCE) and GFCF • Significant loss in export diversity by destination • High external vulnerability due to surge in financially mobile capital and shrinking current-account surplus
Philippines	36.0	35.4	• Increase in political/regulatory risk • Significant reduction in NPLs • Slightly improved export diversity by commodity, significant rise in export diversity by destination • Reduction of domestic demand due to significant fall in GCE and GFCF
Singapore	63.6	59.7	• Reduction in NPLs • Loss in export diversity by commodity • Faster tax mobilization relative to GDP growth • Higher external vulnerability due to 400 per cent increase in financially mobile capital

Source: Calculated using CAA model.

FIGURE 5
Some Improvement in Southeast Asian Resilience



Source: Calculated using CAA model.

Some important conclusions emerge from this analysis. Essentially, Southeast Asian economies have built more shock absorbers and reduced the number of shock amplifiers in their economies:

- Financial sectors have become much stronger. Whereas in 1997–98, financial sectors in many parts of the region amplified the initial shock of currency depreciations, the region's finance sectors were generally quite robust, avoiding the sharp rise in non-performing loans which undermined the capital bases of the banking sector and produced a financial crisis in 1997. Most economies have done especially well to reduce their NPL ratios and substantially strengthen their banking sectors after the Asian financial crisis (Table 4).

TABLE 4
Non-Performing Loans

(% of commercial bank loans)	*2000–4 Average*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
Indonesia	10.2	4.5	7.6	6.1	4.1	3.2	3.8
Malaysia	8.9	6.8	5.6	4.8	3.2	2.2	2.1
Philippines	14.8	12.7	8.5	5.7	4.4	3.5	3.5
Singapore	5.3	5.0	3.8	2.8	1.5	1.4	—
Thailand	13.5	10.9	8.3	7.5	7.3	5.3	5.3

Source: ADB *Asia Economic Monitor December 2009*; Data for Indonesia, Malaysia, and Thailand are as of September 2009; for Philippines as of August 2009; For Malaysia and Philippines, the reported NPLs are gross classified loans of retail banks.

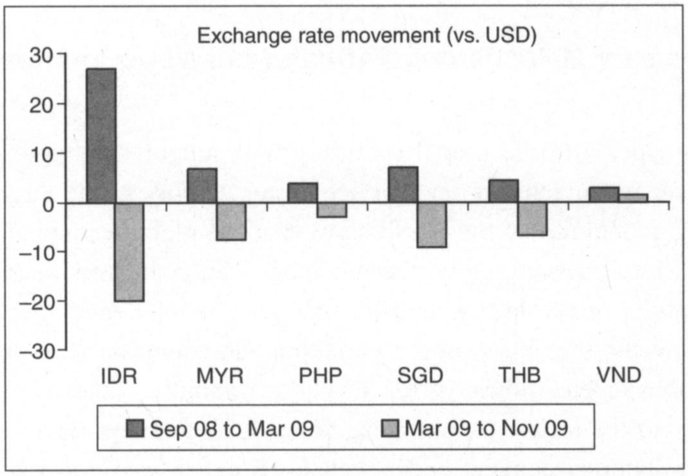
- With a better track record of managing inflation, central banks in the region were more credible and were able to pursue monetary policy responses more effectively than before.
- Political systems proved to be more durable, unlike in 1997–98 when political problems in countries such as Indonesia and Malaysia compounded the effects of the currency crisis.

Second, increased diversity of demand helped some Asian economies as well. The share of domestic demand to GDP in several Association of Southeast Asian Nations (ASEAN) economies has increased from 2000 to 2008, coinciding with increased wages and consumer behaviour (Figure 6).

Third, policy responses were far more quickly implemented and more effective than before. Interest rates could be cut swiftly since central banks were more credible as explained above. Governments put together fiscal packages and implemented them more quickly than in previous downturns.

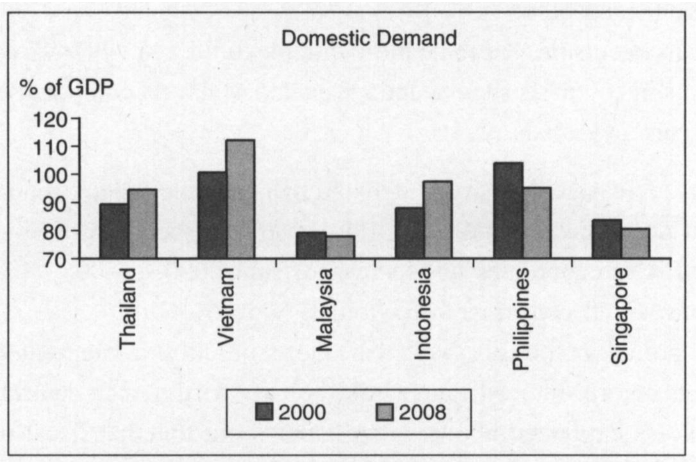
Fourth, there appear to be more automatic stabilizers in regional economies than before. More flexible exchange rates have clearly helped (Figure 7) — unlike in 1997 when the collapse of rigid exchange rates amplified the initial shock. Tax reforms have also improved the correlation of tax revenues with economic activity, meaning that as the economy slows, the tax automatically falls more than before, helping to stabilize demand.

FIGURE 6
Flexible Exchange Rates Helped



Source: Collated by Centennial Group using CEIC database.

FIGURE 7
Domestic Demand — Bigger Role in Some Cases



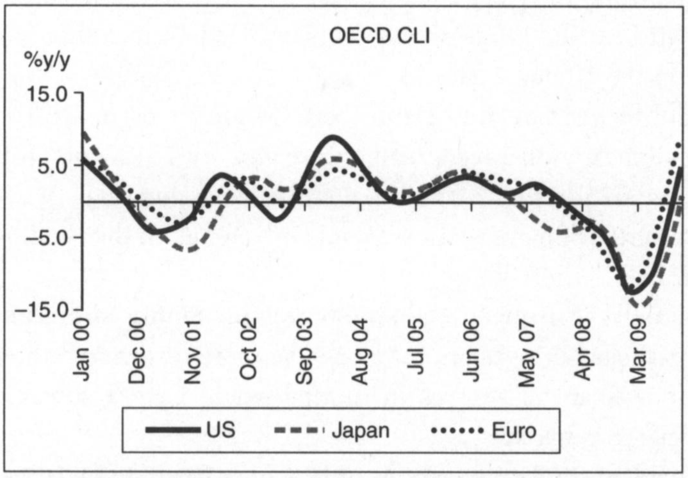
Source: Collated by Centennial Group using CEIC database.

Fifth, although we do not have the data to incorporate this into the resilience analysis, we also believe that supply-side forces unleashed by new economic reforms or by other structural improvements have lent substantially greater economic growth momentum to many economies. This is especially the case for Indonesia and Vietnam. Indonesia is enjoying the fruits of the economic and political stabilization of recent years while Vietnam is reaping the benefits of economic opening and entry into the World Trade Organization. This higher momentum makes it more difficult for an external shock to throw an economy off a growth track.

(c) Prospects for 2010: Strong Rebound but Need to Manage Turbulence

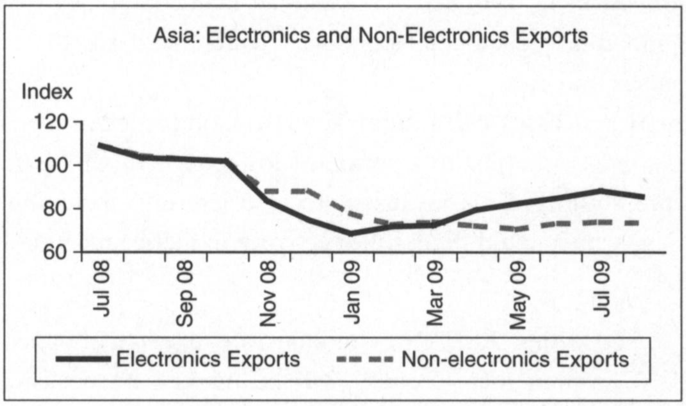
Improving prospects in the global economy will support the region's recovery. Recent data for manufacturing and service sector activity in the larger developed and emerging economies of the world show that the global economy has stopped contracting. More encouragingly, the available lead indicators suggest that this rebound in global economic growth is likely to be sustained into early 2010. Figure 8 shows the Organisation for Economic Co-operation and Development's (OECD) composite lead indicators for the G-3 economies — these indicators point unequivocally to the recovery continuing for at least the next six to nine months. A recovery in external demand bodes well for Southeast Asia as exports that are particularly sensitive to the global economic cycle such as electronics recover (Figure 9).

FIGURE 8
Lead Indicators for G-3 Rising, Allowing ...



Source: Collated by Centennial Group using CEIC Database and the OECD website.

FIGURE 9
... Cyclically Sensitive Electronics to Recover



Source: Collated by Centennial Group using CEIC Database and the OECD website.

Despite this recovery, it is also clear that the recovery in Southeast Asia's major economic partners will be fragile and likely marked by turbulence. While global demand for ASEAN exports will probably be better in 2010, several unresolved stresses in the larger developed economies will probably make for an unsettled global environment:

- **Property-related loans in developed economies remain a risk:** Fitch estimates that U.S. banks can expect to see ten per cent of their US$1.1 trillion portfolio of direct commercial real estate loans default. The regional banks will bear the brunt of this problem, leading to a higher rate of bank failures in the United States.
- **Bank debts need to be refinanced:** Moody's estimates that close to US$7 trillion of global bank debt will mature by 2012 and a total of US$10 trillion by 2015. Banks will struggle to achieve this scale of refinancing. If there are further financial stresses, raising capital on this scale would prove difficult.
- **Many smaller European economies remain highly vulnerable to crisis:** Although financial investors have become more discerning, the risk remains that serious financial stresses in Europe would have a contagion effect on Asian emerging markets.
- **Public debt in the United States or Japan is likely to be in focus in 2010, precipitating new pressures:** Confidence in the United States could take a severe hit, for instance, if it transpired that large government agencies which are already under financial stress such as the Federal Deposit Insurance Corporation, Federal Housing Administration, the Pension Benefit Guarantee Corporation, and others required large scale re-capitalization.
- **Protectionism risks remain:** As unemployment continues to rise and the political mood in developed economies sours in 2010, the risk of more protectionism will rise.
- **Adjustment processes will hinder growth:** Companies in the United States and Europe have to adjust to a period of lower growth where the patterns of demand are shifting. This means more restructuring, including layoffs and cost cutting, which could hinder the recovery in labour markets in developed economies.

The net effect is that ASEAN economies are likely to bounce back fairly strongly in 2010, even if that recovery will be marked by occasional bouts of financial turbulence or uncertainty in developed economies. Indeed, recent lead indicators indicate that a recovery is under way. The available lead indicators for Asian economies are showing clear signs of a rebound. Other regional lead indicators are similarly showing signs of recovery (Figures 10 to 13).

There are reasons for confidence that ASEAN economies can sustain economic recovery into 2010 and 2011:

- First, the global recovery — even if it is uneven — will mean stronger export growth.

FIGURE 10
Region's Lead Indicators Are Recovering...

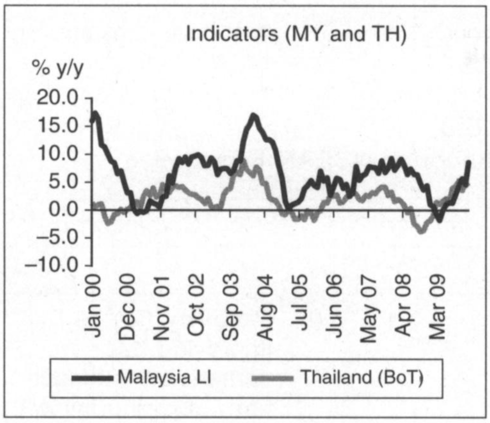
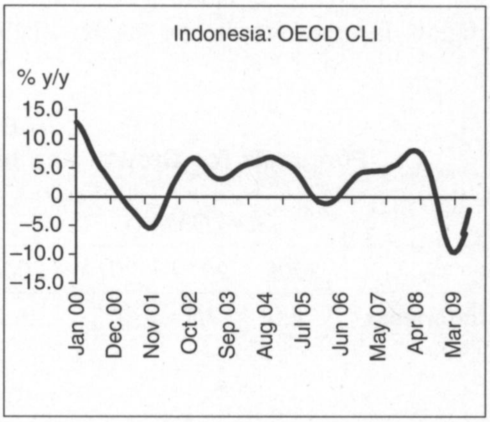


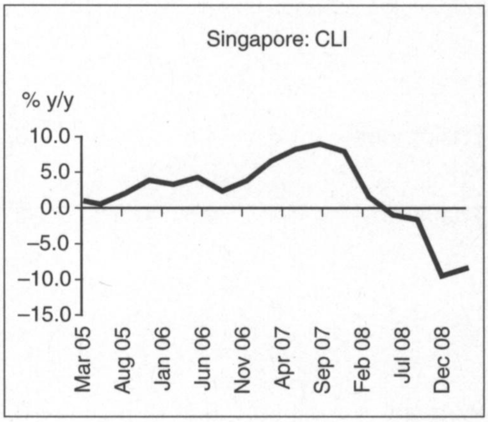
FIGURE 11
... Certainly in Indonesia



Source: CEIC and OECD.

FIGURE 12
... and the Philippines and ...

FIGURE 13
... in Highly Export-oriented Singapore



Source: CEIC.

- Second, this recovery in exports will coincide with the continued and lagged effects of monetary and fiscal easing. Malaysia and Thailand for example will see substantial parts of their fiscal stimulus packages implemented in the course of 2010. Singapore has also pledged to keep fiscal policy supportive.
- Third, some economies are enjoying supply-side boosts to economic growth as a result of previous policies or developments. For example, Singapore will see mega-projects in tourism and manufacturing come on stream — its

massive integrated resorts will open in the course of 2010 while several large manufacturing plants are also set to start production.

In Table 5, we present our views on growth and inflation prospects for the region. In other words, the greater likelihood is that 2010 will be a substantially

TABLE 5
Forecasts for Growth and Inflation in ASEAN Economies

	GDP Growth			*Inflation*			*Comments*
	2009	*2010*	*2011*	*2009*	*2010*	*2011*	
Indonesia	4.6	7.1	7.5	5.0	6.0	5.0	Recovery helped by improving business confidence in longer term, spurring investment as government acts to improve infrastructure and business environment.
Malaysia	–1.8	4.8	5.0	1.1	3.3	2.5	Moderate recovery helped by continued fiscal support. Reforms could spur further upside.
Philippines	1.4	4.5	4.5	3.2	5.5	4.5	Moderate growth close to potential.
Thailand	–2.7	4.5	6.5	–0.5	2.0	2.5	Benefits of global recovery balanced against domestic confidence concerns in 2010 with a stronger recovery in 2011.
Vietnam	4.5	6.5	7.5	6.8	8.5	10.0	Economic growth likely spurred by rising investment and lagged effects of WTO accession. Risks are mainly to price stability.
Singapore	–1.9	7.0	4.5	0	2.0	2.5	Strong rebound in 2010 spurred by exports plus new projects (e.g., integrated resorts) coming on stream.

Source: Forecasts by Centennial Asia Advisors.

better year for economic activity than 2009. The global environment will certainly provide a turbulent backdrop, but the shocks we can expect are not the sort that will hurt economic growth severely. The global stresses — mostly in the G-3 economies — will have a greater impact on financial markets than on aggregate demand and real economic activity in the region.

Longer Term Trends and Challenges

(a) Shape of the Post-crisis Global Economy

As the region exits the crisis, it needs to move away from crisis containment to focusing on adjusting to a post-crisis global landscape that will be quite unlike the pre-crisis one. The key dynamics which will confront Southeast Asian policy-makers, investors, businessmen, and workers include:

- **Noticeably slower global economic growth:** While recovering, growth in the G-3 economies will be dragged down by continued de-leveraging by households and banks, while the need to tighten excessively-loose fiscal and monetary conditions will also act as a brake on the pace of recovery. Chinese economic growth will also probably slow over time as China shifts focus to the quality of growth rather than just high growth per se. In addition to these major drags on global growth, other headwinds include the likelihood of higher oil prices as the demand-supply balance shifts unfavourably and costs of accommodating climate change become more material to growth. Southeast Asian economies will find it hard to avoid a long period of slower economic growth.
- **Changes to fundamental assumptions as the patterns of global growth shift:** Global growth will be slower and more dependent on large developing economies rather than the G-3 economies. Changes in global currencies, China's move up the value chain, India's emergence in global manufacturing, the consolidation of global supply chains, and the backlash in the West against the use of tax and other incentives by developing countries will all change the structure of competitiveness. What is more, the larger Asian economies such as China and India can no longer behave as passengers in the global economy, reacting to global changes: they will have to share responsibility with the G-3 for global economic governance. This means that they will be less able to shield their exchange rate and other macro-economic policy approaches from critical scrutiny by other powerful stakeholders in the global economy.

- **A more volatile global economy:** A far riskier world is emerging where financial stresses and outright crises are likely to be more frequent. This is probably especially so in the early phase of the post-crisis period when the costs of the policy steps taken to end the crisis begin to affect markets and economies. But these stresses will continue as we begin to adjust to the step changes that will occur such as the downshift in the role of the U.S. dollar.

(b) New Economic Policy Frameworks are Therefore Necessary

ASEAN governments are responding to the crisis and the changing shape of the global economy. Both Malaysia and Singapore are scheduled to announce important changes to their economic models in 2010. While each country will pursue its own particular models of development, the following areas will have to be addressed.

Increase the Role of Domestic Demand versus External Demand

Policies to boost the role of domestic demand in regional economies, such as allowing currencies to appreciate and expanding social safety nets, are important but will not suffice in themselves. Currency appreciation may not even be a feasible option — if China is not willing to allow its yuan to appreciate, ASEAN economies are unlikely to allow their currencies to rise. China has emphasized that it will not be pressured into currency appreciation. In all likelihood, the Chinese yuan will only rise gradually and China will probably complement such a policy with administrative measures and indirect subsidies that help its export sector preserve competitiveness. Hence, the incentive for China's Asian competitors to allow their currencies to rise sufficiently to produce an expenditure switch to imports is not that strong. Neither is it likely that more extensive social safety nets will be deployed very quickly — these reforms take many years to materialize. Consequently, ASEAN policymakers will need to try other policies to boost domestic demand:

- **Boosting housing sectors with easy monetary policy:** A more active housing market also spurs construction, real estate services, and financial services linked to housing.
- **Boost infrastructure spending:** A particularly potent area for infrastructure spending will be improving transport linkages in archipelagic countries such

as Indonesia and the Philippines where improved road/rail/bridge links among the islands could help integrate what are now fragmented local economies with sub-par economic scale into larger markets with better scale economies.

Increase Intra-regional Trade and Reduce Dependence on G-3 Demand

ASEAN economies know that they should not rely on domestic demand alone to grow rapidly. Since exports to G-3 economies are unlikely to grow fast, there is an urgent need for new impetus to boost intra-Asian trade. There are several ways this could be done:

- **Summoning the political will to create more effective regional trade arrangements:** So far, regional trade agreements such as the ASEAN Free Trade Agreement have only had limited success in creating a single market because there was not enough political will to overcome non-tariff and other barriers. With G-3 demand growing slowly but Asian economies performing well, there will now be greater incentive to fortify the existing agreements. We also see greater interest in expanding sub-regional integration in areas such as the Greater Mekong Sub-Region (GMS).
- **Improving connectivity within the region:** One way to improve the sub-regional integration would be through improved transport connectivity. We see more efforts to build road and rail networks spanning the sub-regions such as the GMS or the Iskandar Region straddling the Malaysia-Singapore border.

Build Greater Economic Resilience

Asian economies need to build up resilience. Since there is not likely to be any escape from frequent shocks and stresses in the global economy, policymakers will decide that the best they can do is to improve resilience. This means building greater diversity, increasing economic flexibility, and strengthening shock absorbers in the system while reducing the shock amplifiers in the system:

- **Diversity in export structures:** Apart from having more diverse domestic demand drivers, ASEAN countries are also likely to try to diversify the geographic concentration as well as product concentration of their exports. Some degree of industrial policy may be needed to achieve this.

- **Creation of more automatic stabilizers:** As social safety nets are extended, domestic demand would tend to become less volatile — since unemployment benefits and related social payments would tend to increase in an economic downturn.
- **Reduction of shock amplifiers:** This crisis has highlighted the role that financially mobile capital plays in amplifying an external shock. A disproportionate amount of foreigners' holdings of short-term debt and equity instruments in relation to the financial depth of the economy or in relation to its foreign exchange reserves amplifies shocks because the abrupt withdrawal of such capital forces precipitate currency weakness that arouses investor concerns. It also causes a sudden drying up of liquidity in the financial system. We suspect ASEAN policymakers will implement policies to limit the inflow of short-term capital during periods of financial market hubris such as we saw in 2006–7.

Build New Engines of Growth

With currency and cost differentials with developed economies narrowing, there will be particular pressure on the more successful economies such as Singapore to change economic strategies. While the previously less dynamic or poorer economies can still rely on catch up with the successful economies and will benefit from China vacating areas of lower value add, the more successful economies will now depend more on innovations in business processes and adopting new technology which can then raise productivity and boost competitiveness. ASEAN policymakers are likely to be pragmatic about how they go about achieving this.

- **Massive investment in human capital development:** East Asian economies and Singapore have invested heavily in tertiary education. We are likely to see countries such as Thailand and Malaysia step up efforts in this area — expanding the number and quality of tertiary institutions.
- **Increasing competition in the domestic economy:** Innovation is best spurred when companies in the domestic economy are forced to compete against one another. Many countries in Asia are beginning to introduce legislation to improve the competition frameworks in their respective economies. Moreover, as regional trade agreements become more ambitious, as argued above, we are likely to see more regional companies allowed to compete in domestic markets.

TABLE 6
Employment Conditions in Asian Economies

	Rigidity of Employment Index	*Firing Cost (Weeks of Salary)*
Indonesia	40	108
Philippines	29	91
Malaysia	10	75
Thailand	11	54
Vietnam	11	87
East Asia and Pacific Average	19.2	42.4
OECD Average	26.5	26.6

Source: World Bank Doing Business 2010.

Policymakers in smaller Asian economies to create policies to attract such labour intensive manufacturing:

- **Reform labour laws:** Many ASEAN economies still suffer from archaic labour laws which prevent any flexibility in the system, and rigidity is a major disincentive. Issues such as difficulty in hiring, rigidity of hours, and high firing costs are among the main problems (Table 6).
- **Loosen up the business environment:** The time and costs involved in registering a company should be reduced. Costs could be associated with fees, taxes, stamp duties etc.
- **Improve law and order:** Better law and order cannot be ignored. Countries could gain an advantage over others if they improved business conditions, including the law and order situation.

Reap Benefits of Increased Tourism

- **Create packages to suit new tastes:** Package tourists would be an important tool to attract attention. Unlike earlier packages, they should be directed towards Chinese and Indian tourists. Restaurants catering to this new clientele should be encouraged. There should be some coordination between airline operators, hotels, and travel agents. For example, offering special packages with options of vegetarian food will help attract Indian tourists.
- **Marketing and advertising:** Increasing the awareness of tourist locations can be done through advertisement and marketing campaigns in target countries.

Attract Foreign Direct Investment from These Markets

Besides being appealing locations for foreign direct investment, India and China have also become large outward investors. While historically these investments have been targeted toward the developed world, the slow growth forecast for the coming years in the United States and Europe indicates that returns on investment in these markets will be low. Investors could look towards countries in ASEAN for new investment opportunities.

Fill Gaps in Domestic Excess Workers

With the exodus of remittance workers from abroad and a shortage of new job opportunities, there will be a sudden excess in job markets in ASEAN economies like the Philippines, Indonesia, Thailand, and Vietnam. These countries should try and redirect these workers to development in China and India. It will be a slow process and cannot happen immediately, as India and China also have excess supply of labour and low labour costs, as well as tough regulations for hiring foreigners.

New Efforts in Regional Financial Integration Also Needed

ASEAN financial integration has progressed in recent years but remains well below its potential. The volume of intra-regional flows is relatively small, and intra–ASEAN Plus Three portfolio capital flows have grown more slowly than all global flows as well as external flows into ASEAN. Additionally, intra–ASEAN Plus Three flows have declined as a percentage of total flows into ASEAN countries and remain a small percentage of market capitalization in both equities and bonds. Integration so far has also been limited in range. Recipients of intra-regional flows are concentrated in a few countries, with only Malaysia in ASEAN Plus Three receiving a significant share of flows. Similarly, host countries, where the flows originate, are also limited. Singapore generates two-thirds of all intra–ASEAN Plus Three flows, with Japan as the next largest point of origin.

There are several possible reasons for the limited success in regional financial integration. Intra-regional trade is not as large as it seems since much of it is intra-firm trade within the production networks of transnational companies — hence the spin-offs from trade flows into financial flows within the region do not occur. Financial sectors in the region are still immature and lack financial depth. Moreover, savings institutions are underdeveloped in most countries in the

region. With the exception of Singapore and to some extent Malaysia, household savings are consequently fragmented.

Nonetheless, ASEAN is making gradual progress towards regional integration with the expansion of the Chiang Mai Initiative Multilateralization (CMIM), the ratification of the ASEAN Charter, and the establishment of the ASEAN Integrated Food Security framework. A major sign of progress will be the CMIM. This US$120 billion pool of reserves will help to reduce the region's vulnerability during a crisis. Although this was actually an ASEAN Plus Three effort, expanding CMIM still helped to boost ASEAN integration.